

A Work Project, presented as part of the requirements for the Award of a Master Degree in Management from the NOVA – School of Business and Economics.

FEASIBILITY STUDY FOR A HOTEL PROJECT IN MAPUTO

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A Project carried out on the Master in (Management) Program, under the supervision of:

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January, 2017

Abstract

One of this thesis' objectives is to access the market potential, for a hotel that is going to be built in an unoccupied terrain, in Maputo. This depends on the understanding of the characterization of the locality of the investment, Porter's five forces regarding the hospitality industry in Maputo, as well as other competitive analytical tools. With this information it is possible to state the hotel's market and also determine its category. The second objective is to define the best management option. Finally, the fourth objective is to calculate the NPV of the project.

What I concluded to be the best option is to build a 4 star hotel, targeted to foreign business travellers, and hire an external company to manage it. Besides, the project is financially viable.

Maputo, Hospitality, Strategic Location analysis

Index

1- Glossary	4
2- Introduction and Objectives	4
3- Methodology	5
4- African Market Potential	5
5- Analysis of the viability of an investment in Mozambique	6
5.1 - Political	6
5.2- Legal	7
5.3- Mozambican Economy	9
6-Analysis of the viability of the terrain location	11
6.1- Duality of Maputo's city	11
6.2- Characteristics of the local	12
6.2.1- Economical.....	12
6.2.2- Social.....	13
6.2.3- Technological.....	13
6.3- Chamanculo's Strategic Location	14
7- Maputo's hotel Market characterization	17
8- Hotel Market	18
9- Porter's five forces	18
9.1- 4 Star hotels.....	19
9.2- 3 Star hotels.....	20
10- Hotel Potential	21
11- Management solution.....	22
11.1-Project Finance.....	22
11.2- Selling the project before construction	22
11.3-Management contract.....	23
12-Financial Analysis	23
13- Conclusions.....	27
14- First Annex	28

1- Glossary

Guest capture rate: the percentage of guests captured by a determined service/facility;

Inclusive Growth¹: economic growth that originates opportunity for all sectors of the population, and distributes the gains of prosperity (in a monetary or non-monetary-term), fairly, across society;

In Pipeline: concept attributed to rooms or hotels' deals on which construction have already started;

Room night: Unit that measures the number of rooms occupied in a period.

2- Introduction and Objectives

This thesis was developed as a result of an internship at the enterprise, Blue Shift. It is part of a consulting project for a client, Topack Indústria de Plásticos (Topack). The client is a group of companies, present in Portugal, Mozambique and Angola. Its core activity is the transformation of plastic materials, creating several types of products for different sectors. Additionally, in Portugal, the company produces biomass products. In total the group has 400 employees.

In an interview, Pedro Vaz, Topack's administrator informed that given the reconstruction needed in the companies' facilities, due to the industrial activity's adjustments, the group has unoccupied terrains in Maputo. Thus, the objective is to invest on them, in order for them to become profitable assets.

One of the terrains Topack has available is under analysis for the construction of an hotel. It is located in Maputo, Mozambique, more specifically in a neighbourhood called Chamanculo, which belongs to District 2. The Districts of Maputo are depicted in **Exhibit 1- 1stannex 1**. In spite of being located in a Developing country, the hotel should meet the international standard levels of quality.

For the hotel investment, the group has three main resources that constitute a big advantage, compared to other construction enterprises in Maputo. First is the location of the terrain. This is because it is situated in a zone characterized by its heavy traffic flow, which could see footfall increased. Secondly is the fact they have their own capital to invest. The third key point is the visionary and innovative spirit of the board.

¹ Source: OECD. 2016. <http://www.oecd.org>

When asked about the mission and values of the new investment, Pedro Vaz said that the group did not distinctly define any of these. Rather, the group's principal concern with this real estate project is solely the profitability of the asset (which is not planned to be used in the enterprise core activity). The medium and long-run objectives also reflect this idea. Since Topack does not want to be responsible for the management of the hotel, they are expecting to reach their returns by selling the project to another company before the construction takes place, subcontracting the management or by a project finance.

Having said this, one of this thesis' objectives is to access the market potential for the hotel that is going to be built on the unoccupied terrain. This depends on a number of factors. Factors like the provisions for the tourism sector demand in Maputo, the characterization of the local of the investment and Maputo's hotel market characterization. With this information and taken into consideration Porter's five forces regarding the hospitality industry in Maputo, the hotel potential can be defined. An additional objective is to determine the best management option, given what the group has already planned. As previously mentioned, the final objective is to calculate the Net Present Value (NPV) of the project.

Besides this, in order to get a more general overview of the topic to be developed, the African market potential and the macro-forces that might impact the project were analysed.

3- Methodology

Part of the information used in this thesis was secondary data obtained, mainly, through an online research. A benchmarking of hotels in Portugal, provided by Blue Shift, was also used. The primary data was acquired through interviews. As mentioned above, one of them was done to Pedro Vaz, Topack's administrator, in order to understand the company and the investment. Two others were done to Miguel dos Santos and Pedro Valle, the General Managers of Hotel Polana Serena and Hotel VIP Grand Maputo, respectively, situated in Maputo. A fourth interviewee was a local source that is currently living in the city. Finally, the "feasibility model" of Blue Shift was used, in order to calculate the NPV of the project.

4- African Market Potential

Given the fact the investor does not want to be responsible for the hotel management, it is important to understand which solutions other hotels in similar countries/regions adopted. According to W Hospitality Group's report (2016), Africa is an attractive place for investors in the hospitality sector.¹ This is illustrated in the number of rooms in pipeline that this continent registers: an increase of 30% from 2015- at a global level this indicator was equal to 10%. The Sub-Saharan region influenced this positive evolution greatly. The region's pipeline in 2015

was of 31.150 rooms, increasing to 42.1% in 2016. From the Sub-Saharan regions, the West and the South areas (which is where Mozambique is situated) are the ones with the highest hotel chain pipeline: 45% and 26%, respectively. Two major chains contributed to the share of the south region: Accor Hotels and Hilton. The first chain has 50 hotels in pipeline, in Angola, whilst the second has a venue in Botswana and another in Swaziland.

In terms of the types of management agreement in 2016, the preferred method was management contracts- of which there were 287. But additionally, 54 hotel chains signed franchise contracts, and 24 chose other types of contracts, such as joint-ventures or leases.

Exhibit 1- 2nd Annex depicts a comparison between the rooms in pipeline and the existing ones. The chains with the highest number of existing rooms are: Accor Hotels, Marriot, Hilton Worldwide, Starwood, Carlson Rezidor, Movenpick, and FRHI. This table depicts the fact that most of the chains want to expand their presence in Africa by more than 50%.

From insights provided by Pedro Vaz, Accor's investment in Angola has some similarities with the investment project of this thesis, namely the country situation and the scenario that could be developed for the new hotel. This group signed a partnership with a local Angolan company, to manage their hotels. Most of them already have their structure built across the country. AccorHotels CEO, stated that this investment illustrates "AccorHotels' ambition in Africa, where tourism is rapidly evolving". Yet, as a member of W Hospitality Group (2016) claimed, "It's very ambitious for any company to take on" as a result of the inexpressive service culture in the local population. What's more demand is declining (20% - 25%), because of oil prices; although, there are also some positive previsions.² The new hotels, from the economic to the luxury level, will gradually be available over the next two years across 18 provinces of Angola.³

5- Analysis of the viability of an investment in Mozambique

In this study the most relevant areas of PESTLE analysis, which could be deemed to have severe impacts on the project are the political, legal and economic factors.

5.1 - Political

The political situation of Mozambique is marked by a great instability (explained in **Exhibit 2- 2nd Annex**) and corruption. This has implications throughout the whole country, including in Maputo.

Country Watch (2015) calculations for the Political Risk Index scores Mozambique with 4.5-5 points, out of a possible 10. This means that the level of risk, posed to governments,

corporations, and investors, based on several political and economic criteria^{II}, is in the middle of a scale ranging from 0 (meaning high political risk) to 10 (low political risk).⁴ Naturally, this position acts as big disadvantage for those interested in investing in the country or possibly even a deterrent altogether.

According to the World Economic Forum (WEF) (2016), government instability is the 12th most problematic factor for doing business in the country.⁵

Additionally, the dispute for governance poses its own set of problems. If the governing party changes, modifications to current policy or new policies with unforeseeable impacts may occur. For instance, if investment or tourism policies change for worse, this can affect the viability of the project. It must be mentioned however, that policy instability is already present in the country. According to the WEF (2016), this was the second most problematic factor for doing business in Mozambique, which makes this an aspect any company intending to invest should pay close attention to.⁶

Having said this, despite an apparent political instability, the nation's conflict is currently stable and negotiations are on the table to make peace last.

Another issue related to the political area is corruption. It is a common practice in Mozambique and it can be found in most of the sectors, ranging from small bribes to deeply established patronage systems.⁷

According to WEF (2016), corruption was the most problematic factor for doing business in Mozambique.⁶ **Exhibit 3- 2nd Annex** shows additional information reinforcing this, with indicators that illustrate just how high the levels of corruption are in this country. Nevertheless, since Topack, already, operates in Mozambique, it is aware of this cultural characteristic and knows how to overcome it. This is translated into an advantage over enterprises that want to enter in the Mozambican hotel market, putting the group at a competitive advantage.

5.2- Legal

The investment intended to the construction of a hotel, is covered by the Investments Law (Law n° 3/93, of July)^{III}. Thus, it will benefit from tax and customs incentives, as well as other benefits such as the right to import capital, export profits and re-export invested capital.⁸ According to WEF (2016), the extent to which taxation reduces incentives to invest in Mozambique is equal

^{II} Political stability, political representation, democratic accountability, freedom of expression, security and crime, risk of conflict, human development, jurisprudence and regulatory transparency, economic risk, foreign investment considerations, possibility of sovereign default, and corruption.

^{III} This law is applicable to domestic and foreign private investment, whether made by individuals or by legal entities.

to 3.4 points (in a scale from 1 to 7, where 7 means “not at all”); at a worldwide level Mozambique appears in the 84th place out of 138 countries.⁶

Additionally, as stated in the Investment Law, any disputes that may arise with this investment will be heard by the Mozambican courts. However, if the speed of solving these matters is not sufficient, it is possible to reach a solution through other means (i.e. arbitration).⁸

Although it is true to say some legislation was developed to favour investment, there are some statistics that cannot be overlooked. According to the World Bank (2016), Mozambique occupies the 133th position in the ranking that evaluates the ease of doing business, from 189 economies in the world. Compared to the previous year (2015), the country fell 5 positions in the rankings. This ranking depends on 10 main topics^{IV}.⁹

A further problematic figure is that according to the WEF (2016), the burden of government regulation for companies, (e.g. permits, regulations, reporting) scored 3.2 points out of 7 (where 7 means: not burdensome at all), and it is in the 90th position out of 138 countries.⁶

In Mozambique the land is owned exclusively by the State, meaning that it cannot be sold, mortgaged or pawned, as stated in the DUAT Law (Law n° 19/97, of October).⁸ Since Topack has an investment project, it can be titular of a DUAT, given that the investment will be made as a collective person, and the group is registered in Mozambique.

In terms of Mozambique labour force, according to the Law of Labour (Law n.º 23/2007, of August), the number of expatriates hired must be within the established quotas, regarding the type of company. Additionally, the State can reserve the performance of some jobs to nationals. Expatriates must possess the necessary academic qualifications and can only be hired when there are no sufficient nationals who have them.¹⁰ In fact, in Mozambique, the management and top functions in the hotel sector is greatly done by foreigners- and highly remunerated- due to the low level of education registered in the country. According to the World Bank (2015), the Gross enrolment ratio for tertiary education, in Mozambique, was equal to 6 % in that year.¹¹ This reality was confirmed both by Miguel dos Santos and Pedro Valle.

To conclude, although some constraints, it is visible that the country is making an effort to support new investments.

^{IV} Starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority interest, paying taxes, trading across borders, enforcing contracts, resolving insolvency

5.3- Mozambican Economy

In 2016, the economic situation of Mozambique has deteriorated dramatically. Thus, the country became less attractive for investments. The latest IMF previsions points to a GDP growth of 4.5% for 2016- a decrease in comparison to the 6% of GDP growth predicted before.

¹²

This decline was aided by several factors. First, the decrease of commodities price, namely petroleum, aluminium and coal, in international markets, delayed some big investments related to the exploration of natural gas and coal reserves. Secondly, the IMF, the World Bank and other main donors suspended the financial aid to this country, due to hidden external public debt. Mozambique is under a political-military crisis which only worsens the economic situation. Moreover, El Niño caused severe droughts, which destroyed several agricultural productions. Maputo is one of the seven provinces suffering the effects of the drought, with consumer goods doubling in price.

Furthermore, the country is facing a depreciation of the Metical (national currency) to USD, which has been highly aggravated from 2014 to 2015- as depicted in **Exhibit 4- 2nd Annex**. A consequence of this is the increase in the price of imported goods, on which the country depends heavily after El Niño's destruction. As it can be seen, Mozambique needs to make a higher level of imports than before, aggravating the negative values of the trade balance, as **Exhibit 5- 2nd Annex** illustrates.^{13 14 15} In the Sub-Saharan countries, the variation in the exchange rate is the most decisive factor for the increase in inflation rates.¹⁶ This reality can be observed in Mozambique, where inflation is rising abruptly, especially in 2016.¹⁵

In the face of this, the president of the Confederation of the Economical Associations (CTA) highlights the fact that FDI is dropping (as depicted in **Exhibit 6- 2nd Annex**) and an important segment of tourism has declined- the one that associates business travel to leisure.¹⁷

In spite of the described bad economic scenario, there are more promising indicators and developments starting next year. These will be analysed further on in this essay. Nevertheless, the political, economic and legal situation of the country presents more pros than cons, to make an initial investment feasible.

5.4- Prevision of the tourism sector demand

Based on the macro-forces that might have an impact on the project, a prevision of the tourism sector's demand can be developed.

Regarding the Mozambican economy, despite the negative phase it is facing, the IMF expects that in 2017 GDP growth will be of 5.5%, and in 2018 of 6.7%- GDP growth evolution is presented in **Exhibit 7- 2nd Annex**. Additionally, investment measured as a percentage of GDP will start to increase. In 2016 this indicator will be equal to 38.5%, and for 2017 and 2018, the predictions are for it to be 41.5% and 75%, respectively, reflecting a future with a healthier economic situation. This is illustrated in **Exhibit 8- 2nd Annex**. One example is the huge project in the natural gas extraction sector that is moving towards a final investment decision. The company responsible for it is ENI, a multinational Oil & Gas company. But at the moment, only one investment phase of the project has been approved.¹⁸ The magnitude of the project is such that a US based energy giant, ExxonMobil, bought a stake in this project.¹⁹

Also, the political crisis negotiations are pointing towards a more peaceful future, lowering the levels of insecurity felt in the country. This will encourage people to travel across the country, make foreign investors more comfortable to invest and attract tourists, previously driven off by the attacks.

Regarding IMF's financial help program, the institution approved, in December of 2016, a loan of 282,9 million dollars, destined to Mozambique.²⁰ Thus, the future might be financially more stable, assuming that the remaining country's aid partners, that stopped funding the country by the same time as IMF, will return to help the country monetarily.

Moreover, the exchange rate depreciation of the national currency, compared to other countries, such as USA, Portugal or South Africa, makes tourists' power of purchase bigger, which serves as an incentive for them to spend more money in the country.

This positive economic situation is linked to the perspective of development of the tourism sector, over the next years, in Mozambique and more specifically, in Maputo.

In place in Mozambique is the Strategic Plan for the Development of Tourism for 2015/2024. This aims to improve the quality of service, back human resources training and create ideal investment conditions for the several forms of tourism.¹⁰ These improvements will work as a catalyst for a fast economic growth, creation of employment and positioning the country as the leading destination in Africa over the next decade. The quantitative goal with regards to tourists visiting the country annually is of 1,8 million.²¹

Maputo already shows signs of being an important location to carry out this objective. According to INE (2015), from 2012 to 2014, Maputo received half of the guests from the country. More specifically, in the three years, the number of guests in Maputo compared to Mozambique total guests were: 52.3%; 45.8% and 50.8%, respectively.

Plus, there was an increase in the total number of guests in Maputo: in 2012 the registered figure was 822.230, decreasing slightly to 795.655 in 2013 and increasing to 1216.651 in 2014. Regarding 2015 and 2016, Miguel dos Santos pointed that there was a decrease in the occupancy rates, meaning a lower number of guests. Yet, he stated that growth in the sector is expected and points mentioned above support this claim.

However, the average stay of guests indicates something less hopeful. From 2012 to 2014, the figure regarding both nationals and foreign guests decreased. Considering national guests only, in 2012 and 2013 the number of days was equal to 1.7, dropping to 1.6 in 2014. Whilst for foreign guests, in the first two years, the number of days was equal to 1.6, decreasing to 1.4 in 2014.²²

6-Analysis of the viability of the terrain location

6.1- Duality of Maputo's city

To understand the viability of the unoccupied area for the hotel construction, it is important to introduce a big characteristic of the city: its duality. Barros et al. (2014), characterise Maputo as having a rich downtown area (the city centre), that corresponds to District 1, and a poor town, that includes all the other 6 districts. In the rich area of the city is where the tall buildings and some colonial construction are constructed. In the city centre rent is very high; thus it is mainly inhabited by members of the political party in power, Asians and “white” business people and also by ambassadors and tourists. The poorer zone was developed after independence in 1975, when the city's peripheries turned into a poverty zone, built by the rural population that escaped from the war. In this area there are no property rights, and the sanitation conditions are deficient; houses are of low quality and mostly made of wood.²³ The following table- **Table 1**- illustrates important characteristics of Maputo's Districts, where the city duality can be noticed. **Exhibit 9- 2nd Annex** depicts the absolute values taken from this table.

Table 1: Analysis of the districts' characteristics

	District 1	District 2	District 3	District 4	District 5	District 6
Nºof families - Nº of Houses	182	787	850	449	623	13
% of Houses with electricity in Total Nº of houses	98%	55%	68%	61%	54%	43%
% of Houses with toilets in Total Nº of houses	93%	29%	19%	22%	23%	11%
% of Houses with water in Total Nº of houses	92%	77%	54%	36%	53%	16%
% of cement and brick constructions in Total Nº of houses	98%	72%	88%	90%	84%	47%
% of Palm, wood, other type of construction in total Nº of houses	2%	28%	12%	10%	16%	53%

Source: elaborated by me; data from: Barros, Carlos, Andes Chivangue, Antonio Samagaio. 2014 "Cities". "Elsevier", 36: 76-81

The most populated District is the fourth, although the one with the highest population density is the second. Inversely, the least populated is District 1, and District 4 has the smallest population density. District 1 is, by far, the most developed of the five, reinforcing what was mentioned before. Here, the number of families that do not have their own house is the lowest (182), and the percentage of houses with electricity, toilets and water is above 92%. Plus, 98% of the houses are cement and brick constructions. Regarding the remaining four districts, it should be noted that some are more or less developed in certain aspects. For the relevance of this essay, I will just be analysing district 2 as this is where the terrain for the hotel is localized. District 2 is the one that has the highest percentage of houses with toilets and water: 29% have toilets and 77% have water. Although, there are numerous downsides to this district. For instance, 787 families (out of 31.102) do not have a house, 28% of the constructions aren't made of cement and brick- this is the lowest value registered in all districts-, and only 55% of the houses have electricity.

6.2- Characteristics of the local

In this analysis, relevant areas of a PESTLE that apply to the study of the zone where the unoccupied terrain is, were considered. The political and legal situations are general dimensions of the country that can be applied to this location.

The purpose of this analysis is to access if a tourist visiting Maputo would choose a hotel in District 2 or pick another instead. From 2012 to 2014, the average stay per guest, in Maputo, was around 1.6 days.²² This has implications regarding the quantity of commerce and services a guest might need, during his stay, which is low

6.2.1- Economical

Through an analysis of **Exhibit 2- 1st Annex**, it is possible to observe that the offer in the District (and the frontier of the city centre), in terms of commerce/ services and other

infrastructures, is not very large, but it is enough, given the average stay. Also, the nearer the city centre- right bottom of the picture-, the bigger the offer. There, tourists' needs, in term of services and commerce, can be satisfied.

This district has some places to shop. It has a few supermarkets, where it is possible to buy a great variety of groceries, dairy and frozen products, personal care items and more. In addition, there are two traditional markets, where a varied offer of products and services can be found. However, their specificity may not attract international tourists on a daily basis. Moreover, on the right side of the district frontier, there is a department store, which offers a wide range of consumer goods in different product categories.

Additionally, regarding the social equipment facilities, District 2 has churches/ mosques for different religions. This area has post offices, a police station, a hospital and some pharmacies to cater for any medical issues that may arise. Regarding the places to eat, the selection is not very wide, but there are some restaurants/ bars or take-away options, and there is the possibility to eat in local markets. A positive aspect to highlight is the fact that, in such a small area, there are 3 universities, 2 schools, and a Municipal and Cultural. Importantly, in this district there is no other hotel, meaning lower competition.

A drawback of district 2 is the lack of banks or places for cambial exchange, and areas for leisure activities. Yet, to the left, in District 5, there is, for instance, a Zoo, and in District 1 there are some green areas and other leisure areas.

6.2.2- Social

In terms of security, Maputo does not appear to be a dangerous city, capable of deterring tourists away of the city. The UK Government's website informs that most trips to Maputo are trouble-free. Yet, it reports some crimes that have been happening (on a low scale), such as carjacking, and some street crimes, involving knives and firearms. Additionally, the website advises tourists to not walk alone at night and to not display valuables which can cause issue for concern. Also, some travellers reported being victims of police harassment, including robbery, or requests for bribes.²⁴

6.2.3- Technological

In terms of infrastructures, Chamanculo have precarious sanitary conditions. As seen before, this is illustrated in the percentage of houses with water, electricity and toilets.

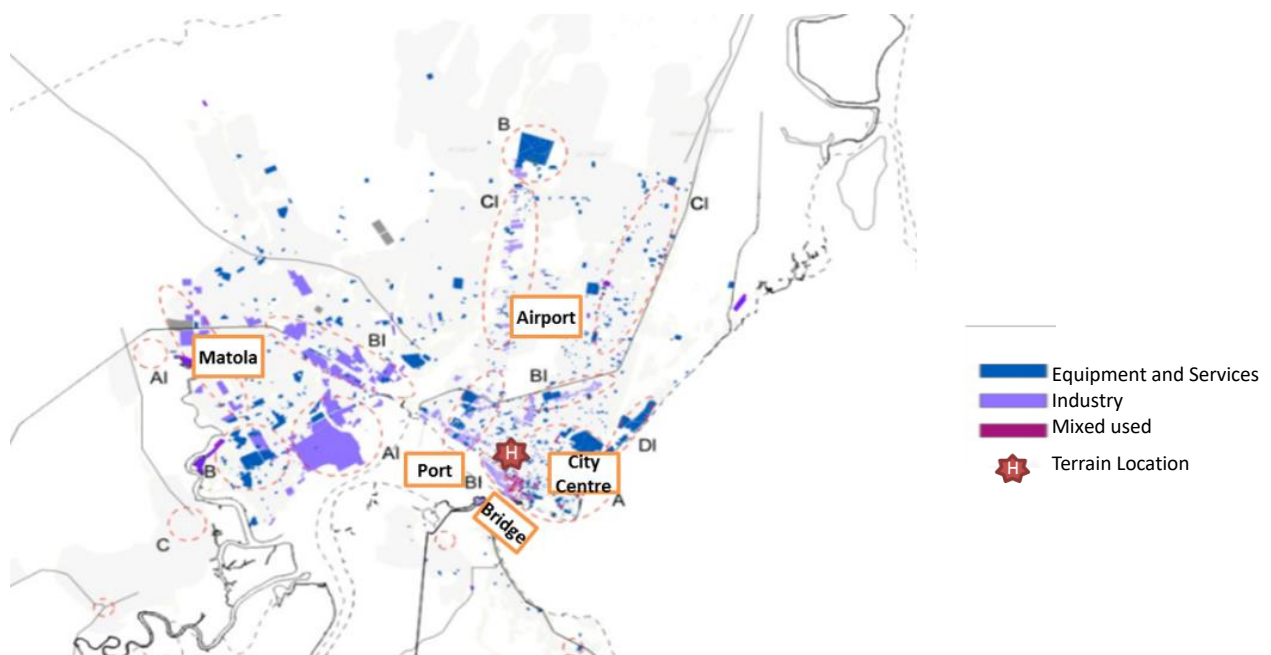
Also, in Chamanculo, as in the rest of the city, the public transportation service does not meet the minimum quality standards and is very limited.²⁵ So, according to a local source the majority of tourists chose to catch a taxi or to rent a car.

In spite of the poor quality infrastructure, previsions for the future are more optimistic. At the moment, there are some projects taking place to redevelop some neighbourhoods and informal settlements. One of them is in district 2, more specifically in a zone of Chamanculo, where solutions for the sanitation problem and other infrastructures in general, are being provided.²³ To conclude, although there are some less positive aspects of the area, it is still possible to assume that a tourist would choose this location.

6.3- Chamanculo's Strategic Location

A big advantage of Chamanculo -and more specifically the terrain destined to the hotel in Avenida do Trabalho- is its strategic location. It is situated relatively near important economic activities concentrations, such as industries and services, and other important infrastructures. They are showing signs of continuous development for the future, and that are able to generate a big flow of people. They are illustrated in **Figure 1**.

Figure 1- Functional concentrations of the metropolitan system.



- A: Business Centre, equipment and central level services, universities
- B: Equipment and services of provincial level, secondary schools
- C: Equipment and local administrative services- in a small scale
- AI: Heavy manufacturing industry- with a great activity
- BI: Light distribution industry; logistic area (warehouses)
- CI: Small concentration of industry and wholesalers
- DI: Touristic area; big hospitality units

Source: Adapted from- **Macucule, Domingos**. 2010.” Metropolização e reestruturação urbana- O território do Grande Maputo”. Masters diss. Universidade Nova de Lisboa

District 2 is adjacent to District 1, where the **city centre** is, which makes it an attractive proposition. It can be reached in 1,5 km, due to the fact that Avenida do Trabalho is connected to Avenida Eduardo Mondlane (an avenue than crosses the whole district 1 horizontally). As **Figure 1** shows, the city centre is mainly characterised by the business centre, equipment and services of central level and universities (such as Eduardo Mondlane University). To understand the scale of this area is important to bear in mind that this is the most developed district of Maputo and this city is the main financial and corporate centre of the country.²⁶ A report from INE (2013) shows the activities that employed the greatest number of employees, in 2012. Public administration and defence was the leading one, with 30555 employees, followed by retail (9781), investigation activities and security (10313), education (8842), wholesale commerce (5704), financial services (4579), and civil engineering (4121).²⁷

According to AICEP (2016), the majority of the Portuguese companies in Maputo are located here, in the city centre. They belong to a wide range of sectors, such as consulting, construction, tourism, engineering, architecture, TIC, financial services, or distribution.²⁸ Moreover, there are some embassies located here (e.g. from Canada, Portugal, the Netherlands, Germany, Spain, USA, and France).

A second source of activities is the **port**. It is located in the southwest of Maputo, occupying the liminary area of District 2 and 5, and half of District 1, as **Exhibit 10 – 2nd Annex** shows. It has two main areas: Maputo commercial Port and the industrial complex of Matola. Matola is the biggest suburb of the capital. This structure represents a commercial location of great importance, since it is part of a freight corridor. This corridor links directly the most industrialised and productive areas of Austral Africa, namely South Africa and Swaziland, to Maputo. Additionally, the port is situated near one of the extremes of a road that crosses the whole country, vertically.²⁹ Recently, it was modified to be able to receive bigger ships, making it more competitive.³⁰ As **Figure 1** shows, the area surrounding the port is characterised by light distribution industry and a big logistic area (i.e. warehouses, mainly).

Furthermore, the terrain intended for the construction of the hotel is located near an avenue that accesses **Matola**, directly. Araújo (2000) highlights the geographic proximity between the two cities and the continuation of the urban space, which makes them a geographic unit. Due to this, the daily circulation of goods and people is in such a scale that the citizens have the perception to be in the same space.³¹

Matola has the biggest industrial park of the country. It holds the majority of the companies that drastically improve the national economy; such as Fábrica de Cimentos, Companhia Industrial da Matola, Química Geral and FASOL, Alumínios or BIC.³²

Additional examples of companies in Matola can be found in **Exhibit 11- 2nd Annex**. According to INE (2013) in this suburb, by 2013, the industries that employed the greatest number of workers were the alimentary (2679), other manufacturing industries (1171), manufacturing of mineral products (735), other extraction industries (639) and manufacturing of chemical products and synthetic fibers (487).³³

In a recent statement, Matola's administrator demonstrated that he has great hopes in the contribution of this area, for the country development, having as an advantage its strategic location and the easiness of logistic management.³² This logistic is possible due to a road that passes through Matola, which connects Mozambique to foreign countries and other with direct connection to the Maputo's port and centre.

According to MasterCard (2015), Matola was the medium African city that scored the highest inclusive growth.³⁴ In fact, big investments have been made; creating 5500 jobs since 2015, and this area is having an expansion with new industries, such as the new Coca-Cola factory.

Additionally, a project has been developed by the municipal council to make this a touristic area. But still, the district administrator highlights the lack of accommodation available and the low quality level of the existing ones.³²

Furthermore, it is important to include the **International Maputo Airport** in this analysis, due to the increasing relevance of this infrastructure. According to data available in the airport's official website, from 2013 to 2015 the number of arrivals increased, being equal to 227.122; 249.777 and 279.683, respectively.³⁴ According to Barros et al. (2015), Maputo's airport accounts for most of the international traffic in the country, and the throughput of its air traffic is similar to a standard airport in a European city. Moreover, in Mozambique air transportation is preferred to rail, implying a higher presence of travellers in this infrastructure.³⁵ Furthermore, the distance from the airport to Chamanculo, in district 2, is around 4.3 Km, which is shorter than to the main neighbourhoods where other hotels are concentrated, in district 1. From the airport to district 1, it can take between 5,9 km and 8 km.

Finally, there is a **bridge** under construction, with the opening date scheduled for 2017, located between the frontiers of district 1 and 2, with the other extremity in Catembe. It will encourage a big flow of people, from one area to the other, due to easier access. **Exhibit 12- 2nd Annex** illustrates its location. The scale of this investment is such, that it is considered the biggest project, since Mozambique's independence, completing the road connection, between the north and the south country's extremes.³⁶ At the moment, Catembe is not as developed as the city centre, in terms of urbanisation. Yet, with the new bridge and a restructuring plan for the area

it is expected that Maputo will grow to this zone, as the necessary infrastructures and accesses are created.³⁷

7- Maputo's hotel Market characterization

The following analysis will be focused in District 1, because, it is where the biggest and more expressive concentration of hotels is. Matola, also have accommodations available. However, as discussed by the areas administrator, there is a lack of accommodation available and the existing ones are of a low quality. Currently, international booking websites, such as Booking and Expedia, report five accommodations, in about 373 km²: three 3 star hotels and 2 Guesthouses- an inexpressive selection. Additionally, through the same websites, it is possible to conclude that in Catembe the offer is severely reduced, since only 4 sources of accommodation appear in the district^{38 39} **Exhibit 13- 2nd Annex** illustrates this. The use of international booking websites, in this analysis, assures an international quality level of the hotels; an issue to keep in mind given the fact that Mozambique is a developing country.

First, the hotel market is highly populated by foreigners. According to INE (2015), between 2012 and 2014, the share of foreign guests, in total guests, was higher than that of nationals, with an increasing amount over the years. In 2012, national guests represented 41% and foreigners 59% of the total. In 2013, the shares changed to 37.7% and 62.3%, respectively. As for 2014, the values registered were 37.4% and 62.6%.²²

Secondly, the majority of hotel guests are corporate travellers, because this zone is the main financial and corporate center of the country. This district is, also, the most touristic area of the city, chosen by those in leisure holidays- a part from the districts where the beaches are, in district 6 and 7-, however travellers with this intention come in fewer numbers than the ones that have business purposes.⁴⁰ To demonstrate this, in the case of Hotel Polana Serena, the segments of clients are characterised by 95% corporate guests and only 5% come with leisure intentions in mind. The remaining hotels, from 5 to 3 stars position themselves as being indicated for the business traveller, and some also target the leisure segment (this can be observed in the hotels' official websites).

The nationalities of the corporate segment are varied. According to Miguel dos Santos, it varies much. Portuguese guests are usually in a great number, but there are other nationalities, such as the South African, American, Brazilian, Italian, or others from Europe North Countries. This variation depends, both on the country's economic situation and on the one of the companies. The members of the corporate segment range from different companies, such as ONG, companies owned by the state (e.g. communications enterprises) and the ones from the business

centre. There are also delegations of the head of state, and the expectation that the oil and gas projects will generate more guests, coming from the companies associated to them.

The annual report from 2014 of the Ministry of Labour presents information about expatriates, which corroborates what was mentioned.

First, Maputo was the Mozambican city that hired the highest number of foreign employees (i.e. 5822 employees, from a total of 19491 in the country). When compared with the previous year, 2013, the number of hires increased by 3,54%.

Regarding the nationalities of the expatriates in Mozambique, the leading one is the Portuguese (3971 workers, i.e. 20.4%), followed by South- Africa nationality (3504, i.e. 18%), the third one is the Chinese (2239, i.e. 11,5%), and the fourth is the Indian one (1947, i.e. 10%).⁴¹

8- Hotel Market

The hotel's market comprises the flow of people generated by the several economic and industrial activities, mentioned previously. Also, it is most likely that a great share of clients will be foreign business travellers. This is explained by the fact that this is the market characterization of District 1 (where the most expressive area of hotels is).

Regarding leisure guests, added to the fact that the share of this segment in the city centre is small, the terrain location might be an extra factor to reduce the number of leisure guests interested in staying in a hotel placed there. As shown in **Exhibit 14- 2nd Annex**, for the business guest a hotel that is not located in the city centre is not an important matter; on the contrary, for a leisure guest it is.

9- Porter's five forces

Another important analysis is Porter's Five Forces of the Industry (Michael Porter, 1975).⁴² Due to the overall level of development of District 2, a 5 star hotel cannot be built in that location. Additionally, the construction of a 1 or 2 star hotel is not feasible, since these categories do not meet the international quality standards. Thus, the following analysis will be focused on 4 and 3 stars^V hotels. The insights provided by Miguel dos Santos and Pedro Valle served to develop this study. Additionally, the websites of the hotels were consulted. **Exhibit 15- 2nd Annex** contains the names of the hotels, present in Maputo's District 1.

^V Hotel's categories are defined in "Regulation of touristic undertakings, restaurants and beverages, and dance halls": decree N°97/2013

9.1- 4 Star hotels

Threat of new entrants:

The threat of new entrants depends on the weight of entry barriers. There can be of different types. First, the existing hotels have an advantage in terms of quality: half of the hotels in this category are owned by international chains, which insure the same level of quality across every accommodation they own throughout the world. Secondly, the capital requirements are high, especially regarding the initial investment: the construction of the entire building and supporting infrastructures. Moreover, the most expected incumbents' reaction to new entrants is retaliating by decreasing prices. Having said this, **the threat of new entrants is low.**

Bargaining power of buyers:

Hotels offer a highly perishable service: if a room is not occupied during one night, the revenue is lost. Thus, their revenues depend heavily on consumers.

The segment of clients which rent hotel rooms in bulk (i.e. airline crews, online travel agents (OTA), tour operators (TO) and MICE (Meetings, Incentives, Conferences, and Events)), are the ones who can take most advantage of this situation. However, they correspond to 20% of total clients, which is not a high number. The majority of corporate guests, which represent the highest client share, buy the service individually. Thus, they don't have a high bargaining power.

Taking this into consideration, it is most true to state the **bargaining power of buyers to be medium.**

Bargaining power of suppliers:

Hotels need a great variety of supplies, although in the set up period this necessity is even higher. In the beginning, they are, mainly, in need of furniture and interior design companies, website developers, towels and linens providers and equipment for the health and fitness centre. As for the remaining operational time, supplies from the food & beverage industry and personal care items, are needed. None of these industries are heavily concentrated; some might depend moderately on the hotel industry, such as the food & beverage one. There are no big switching costs and no products that impose a difficulty to find substitutes. Overall, **the bargaining power of suppliers is low.**

Threat of substitute products:

Five star hotels are substitute for four star hotels, since both categories offer similar things in terms of prices and services/ facilities provided, although the quality level of service can be

expected to be lower in the 4 star's category. In the areas under study, there are 5 five star hotels. Additionally, some 3 star hotels can be considered in this analysis. However, the threat in this case is lower because there are no 3 star hotel offering a quality of international standard level, considering the facilities and service. It is for this reason that the **threat of substitute products can be said to be medium.**

Rivalry among existing competitors:

The number of hotels is not high (7), but, since the occupancy rates have been decreasing, it is very likely that each hotel will have to develop strategies in order to attract a higher number of guests. Secondly, they do not offer a much differentiated product. In their official websites, all present themselves as having good facilities, being well locate and suitable for the business traveller. Thirdly, the exit barriers are medium, due to the specificity of the business. Yet, in this case, giving the hotels proximity to the business centre, they can be transformed into offices or apartments destined to business travellers. Thus, I consider that the **rivalry among existing competitors is to be high.**

9.2- 3 Star hotels

Threat of new entrants:

The threat of new entrants is dependent on the weight of entry barriers. In this case, the main one is the capital requirement. As seen before, to open a new hotel, construction, furnishing and equipment expenses must be made (although in lower amounts than in the previous category). Furthermore, since the existing 3 star hotels are not managed by an international chain, the staff performance's quality is low. However, if it is the case that a new entrant has well-trained personnel, the threat implied will be higher. Nevertheless, **I will assume that the threat of new entrants is low.**

Bargaining power of buyers:

As seen previously, the hotels are a perishable service. If a room does not receive any guest during one night, the revenue it would generate is lost. Thus, hotels depends heavily on consumers. The segment of clients which rent hotel rooms in bulk (i.e. airline crews, online travel agents (OTA), tour operators (TO) and MICE (Meetings, Incentives, Conferences, and Events)), are the ones who can take most advantage of this situation. However, they correspond to 20% of total clients, which is not a high number. The majority of corporate guests, which represent the highest client share, buy the service individually. Thus, they don't have a high bargaining power.

Taking this into consideration, it is most true to state the **bargaining power of buyers to be medium.**

Bargaining power of suppliers:

As seen previously, hotels need a great variety of supplies, ranging from furniture and interior design companies, website developers, towels and linens, food & beverage and personal care items. None of these industries are heavily concentrated and there are no big switching costs. However, since 3 star hotels are not as developed as the above categories, the majority of the products have to be sourced locally. It might be the case that 3 star hotels depend on some suppliers- mainly of those with products that impose a difficulty to find substitutes. Having said this, I will assume that **the bargaining power of suppliers is medium.**

Threat of substitute products:

The main threat of 3 star hotels are Guesthouses. The range of prices is similar to the ones of this hotel's category, as well as the services/facilities offered. In Booking and Expedia websites, there are 9 available to reserve, but through other independent research it is possible to find more. According to Miguel dos Santos this is becoming a very popular choice of accommodation. Thus, the **threat of substitute products is high.**

Rivalry among existing competitors:

First, the number of hotels is high (11). The occupancy rates have been decreasing, thus hotels have to create strategies in order to attract guests. They are all very similar in terms of services/facilities offered. The exit barriers are medium: hotels are a very specific asset. However, in this case they are near the business centre, thus they can be transformed into offices or apartments destined to business travellers. Thus, I will consider that the **rivalry among existing competitors is high.**

The force of each dimension is almost equal between the two hotel's categories. However the bargaining power of suppliers and the threat of substitutes present a more favourable scenario in 4 stars hotels.

10- Hotel Potential

Besides the previous analysis, the differences between 3 and 4 star hotels should be considered (this is depicted in **Exhibit 16- 2nd Annex**). The main conclusion is that some important characteristics (such as the level of security, the availability of the staff and the number of social and leisure areas), that international guests are used to, are only present in the 4 star category.

Bearing in mind, also, the strategic location of the terrain, Maputo's hotel market characterization and Porter's five forces, the investor should build a **4 star hotel**.

Moreover, the management is not yet attributed to any entity. In the case it was already defined has an international hotel chain responsibility, a 3 star hotel could be an option, since international quality standards would be assured. Also, the service in the majority of the category is not well perceived by guests, which might deter other guests of staying in these hotels.³⁹

A 4 star hotel is defined as having rooms with superior accommodation, equipment and facilities of great quality; 24 hours Food & Beverage service; facilities and equipment for meetings; qualified and trained staff; leisure areas and a business centre. However, according to Pedro Valle, the requisites are not mandatory; instead they are just indicative.

11- Management solution

As mentioned before, Topack does not want to be responsible for the management of the hotel, mainly because the group does not have the necessary experience in the hospitality sector. The management options presented by Topack are evaluated below:

11.1-Project Finance

This alternative combines both the financing of the project and the subcontracting of other entities responsible for construction and operations. For Topack it would be advantageous because, the project risk would be transferred to lenders.⁴³

However, project finance, presents some disadvantages. It involves a great number of participants (e.g. shareholders, lenders, operators, construction contractor, input supplier), and the interest of all might not be synchronized. Secondly, it involves higher fees and interest rates, than other corporate lending, because lenders support higher levels of risk. Plus, associated to this risk there is an increased insurance coverage. The political and economic instability of the country is translated in additional risk insurance. Thirdly, the transaction costs tend to be large since lenders supervise greatly the construction, management and operation of the project. Moreover, they require constant technical and financial data, with an increasing burden to borrowers.^{44 45} Having said this, given all the additional costs that this mechanism imposes, it is not a feasible option.

11.2- Selling the project before construction

At first glance, this strategy might seem advantageous. The majority of Topack's burden with this project would disappear right before the construction and the company would just receive the returns of the investment. However, a big issue may rise. It might be difficult to find

someone willing to buy a project for a hotel, in District 2. The question is not the viability- which it has, as explained previously-, but rather the fact that it might be difficult to attract someone that can understand the potentialities of the area and not be scared because no other hotel is built there.

11.3-Management contract

A management contract, as defined by Pugh (1961), is “an arrangement under which operational control of an enterprise (or one phase of an enterprise) which would otherwise be exercised by the board of directors or managers elected or appointed by its owners is vested by contract in a separate enterprise which performs the necessary managerial function in return for a fee”.⁴⁶

The strategic advantage of this is that the contractor organization can exercise its influence, not only in the short term but also in the long one, and also it can benefit and block competitive activity.⁴⁷ The disadvantage is that the owner loses the control of management, which in this case is not a problem.

In fact, this entry mode has been widely adopted in the hotel sector. In a study conducted worldwide, Contractor and Kundu (1998) concluded that management contracts were the most adopted entry mode chosen by hotels, constituting 37 per cent of total foreign hotel arrangements.⁴⁸ This idea is also present in the Literature Review: the majority of the Hotel Chains in Africa are signing management contracts. Thus, I believe that this would be the **best strategy**.

12-Financial Analysis

In order to analyse the financial feasibility of the project, its **NPV** (Net Present Value) has to be determined. All the calculations were made in Euros and it was considered a period of 13 years, from 2017 to 2029. Due to the instability of inflation registered in the country, it was not considered.

The initial investment was determined based on AECOM (2016) and Cushman and Wakefield (2016) reports about hotel's construction costs.^{49 50} The total cost is equal to 13.406.911€; it will start in 2017 and end in 2019. The construction will take 2 years and cost 10.177.761€. Soft costs (which include e.g. architectural, engineering, legal fees) will last three years, with a bigger incidence in the first one; in total they will be 1.453.296 €. FF&Es (Furniture, Fixtures and Equipment), and Pre-opening and supplies costs will just take place in 2019, and will be equal to 1.453.296€ and 3.22.961€, respectively.

Table 2 depicts the P&L account of the hotel, which details the margins of each department. It was assumed that the hotel will have 100 rooms, taking into consideration that the number of 4 star hotels' rooms ranges between 40 and 269, and that Topack have an approval for building up to 5 floors.³⁹ The following assumptions were based on insights provided by Miguel dos Santos and Pedro Valle.

In Maputo, the range of prices charged by a 4 star hotel is between 100\$ and 160\$^{VI}. The occupancy rate in a bad year, like 2016, is equal to 50%; in a good year, such as 2014, it can be equal to 65%, or more. Giving that the hotel will have to enter in the market progressively, prices and occupation rate will grow faster in the first 3 years, than on the following ones; in 2024 they will stabilize, because the hotel reaches the maturity stage. Thus, it was assumed that the average price will be 110€ in the opening year, it will increase to 130€ in 2022, and stabilize in 150€. As for the occupancy rate, it will be 30% in the opening year, increase to 60% in 2022 and stabilize in 70%. The hotel will receive 4 different segments of clients: the corporate one, which will represent 80% of guests; the leisure and MICE segment which will account for 5% of guests, each; and the segment of clients from OTA that will represent 10% of guests.

Regarding the costs, a big share is related to personnel costs. The discrimination of the number of employees and respective wages is depicted in **Exhibit 17- 2nd Annex**. The cost of each employee, per month, is equal to the wage plus 8% of it: the social security contribution is equal to 4% and other costs are also 4% (for departments' managers this percentage is equal to 8%). Other costs comprise meals, insurances and training. Per year, the hotel has to pay 13 wages to each employee. The hotel will not start operating with all employees; in 2020 it will operate with 60% of full capacity, which is going to be reached in 2023. The value of the wages is equal to 90% of the ones of Hotel Polana Serena, because its wages are above the average, in Maputo. In rooms department OTA charge an average commission of 20% over the hotel sales. Besides, this department will have other costs, which represent 2% of room sales.

In the following departments a benchmark of a 4 star hotel in Portugal was used, to determine costs and revenues. In the Food and Beverage (F&B) department revenues are generated through the breakfast, restaurant and bar. Per each, the average expenditure per guest is 5,96€; 14,30€ and 4€, respectively; these values are the sum of food and beverages' expenses. The guest capture rates are equal to 95%, 50% and 19%, respectively.

^{VI} By 29, December 29, 2016 the USD to Euro exchange was equal to 0.95.

In terms of costs, according to Pedro Valle, the ratios of F&B in Maputo are similar to the ones in Portugal. Thus, the cost of sales ratio was assumed 35% for food and 23% to beverages. This department will have other costs, which represent 3% of F&B sales.

An additional source of revenues will come from the secondary department, on which the meeting room rental and the telephone (placed in each room) are being accounted. Guest capture rate will be 8% and 15%, respectively. The meetings room will have a price of 10% of room revenues, and the telephone will cost on average 2€ to guests. The cost as a percentage of this department's sales will be equal to 32%.

Besides this, the hotel will have a shop to rent, which will generate 14.280€ per year.

In the overhead departments other costs will be of 6€ per room night. The maintenance department will cost 1.6€ per room night, and the IT department 0.96€ per room night. Furthermore, the cost of utilities corresponds to 2.5% of room revenues, according to Miguel dos Santos.

Blue Shift proposed to be in charge of the hotel management. Per month, management fees will be equal to 10.000€, which comprises the General Manager income. Additionally, there is an incentive fee of 5% of Gross Operational Profit.

The income tax applied in Mozambique is of 32%.⁵¹

The Net profit will be negative between 2020 and 2022, in 2024 it will be equal to 32.143€ and in 2029 it will be to 1.798.795€.

Considering the previous P&L statement, amortizations^{VII}, CAPEX (per year, the investment as a percentage of revenues is 3%) and working capital, free cash flows can be determined. Between 2017 and 2019, they will be negative. In 2020 they will be 72.882€; up to 2029 this result suffers some changes. In the last year it will be 2.0272.023€. The values are depicted in **Table 3**.

A WACC (weighted average cost of capital) of 10% was used to calculate the discounted cash flows. According to Pedro Vaz, in Mozambique, the WACC applied to the hospitality sector is around 15%, but inflation was not considered in the exercise^{VIII}. The Internal Rate of Return (IRR) is equal to 12%. The sum of discounted cash flows gives a NPV of 3.076.499€.

A least positive aspect is the fact that the weight of perpetuity is around 200%. This means that there is a great dependency in future cash flows (i.e. if the perpetuity wasn't considered, NPV would be negative). To conclude, the project is feasible.

^{VII} The average time of amortizations is 40 years.

^{VIII} IMF predicts an inflation rate for 2020 and 2021 of 5.6%. To simplify the calculations 5% was assumed as the average rate of the period of the exercise.

Table 2- Profits & Loss account of the hotel (in €)

	2020	2021	2022	2023				2028	2029
Total Revenues	1.419.715	2.530.302	3.250.338	3.756.849				4.299.860	4.299.860
Room Department									
Rooms department margin	1.113.680	2.052.653	2.676.266	3.117.573				3.608.133	3.608.133
Rooms department margin %	92,5%	93,7%	94,0%	93,9%				94,1%	94,1%
F&B Department									
F&B Department margin	58.812	129.851	160.066	159.257				179.670	179.670
F&B Department margin %	31,6%	41,9%	43,0%	39,5%				41,4%	41,4%
Other Departments									
Other Departments margin	9.806	10.446	11.087	11.727				12.368	12.368
Other Departments margin %	66,3%	66,3%	66,2%	66,1%				66,1%	66,1%
Other operating Revenues									
Results before Direct Costs	1.196.578	2.207.231	2.861.699	3.302.838				3.814.451	3.814.451
Administrative and General									
Total Administrative and General Costs	33.005	52.193	62.256	68.695				73.258	73.258
Information Technology									
Total IT Costs	12.389	19.709	23.526	25.904				27.656	27.656
Marketing & Sales									
Total Marketing & Sales Costs	86.771	134.083	159.495	177.469				188.419	188.419
Maintenance									
Total Maintenance Costs	29.954	43.706	51.618	58.683				61.603	61.603
Utilities									
Total Utilities Costs	30.113	54.750	71.175	83.038				95.813	95.813
Total Indirect Costs	192.231	304.441	368.071	413.788				446.747	446.747
Gross Operating Costs (GOP)	1.004.347	1.902.789	2.493.628	2.889.050				3.367.703	3.367.703
GOP margin %	70,7%	75,2%	76,7%	76,9%				78,3%	78,3%
Management Fees	146.016	146.016	146.016	146.016				146.016	146.016
Result before Operating Costs	858.331	1.756.773	2.347.612	2.743.034				3.221.687	3.221.687
RBOP margin%	60,5%	69,4%	72,2%	73,0%				74,9%	74,9%
Operating Costs									
EBITDAR	795.609	1.667.397	2.240.955	2.624.221				3.089.842	3.089.842
EBITDAR margin %	56,0%	65,9%	68,9%	69,9%				71,9%	71,9%
Rents	0	0	0	0				0	0
EBITDA	795.609	1.667.397	2.240.955	2.624.221				3.089.842	3.089.842
EBITDA margins%	56,0%	65,9%	68,9%	69,9%				71,9%	71,9%
Amortizations	333.130	334.388	336.810	339.611				355.637	358.842
EBIT	462.479	1.333.010	1.904.145	2.284.610				2.734.205	2.730.999
EBIT margin %	32,6%	52,7%	58,6%	60,8%				63,6%	63,5%
Financial Expenses	-898.656	-1.651.073	-1.927.243	-1.822.467				-370.997	-85.712
EBT	-436.177	-318.064	-23.099	462.143				2.363.208	2.645.287
EBT margin%	-30,7%	-12,6%	-0,7%	12,3%				55,0%	61,5%
Income Tax	0	0	0	0				756.227	846.492
Net Profit	-436.177	-318.064	-23.099	462.143				1.606.981	1.798.795
Net Profit margin %	-30,7%	-12,6%	-0,7%	12,3%				37,4%	41,8%

Table 3- Computation of discounted cash flow (in €)

	2017	2018	2019	2020	2021	2022	2023	2024	2028	2029
NOPLAT				462.479	1.333.010	1.904.145	2.284.610	1.867.977	1.859.259	1.857.080
Amortizations				333.130	334.388	336.810	339.611	342.816	355.637	358.842
CAPEX	6.251.517	5.234.210	1.921.184	14.197	50.606	97.510	112.705	128.996	128.996	128.996
Δ Working Capital				52.529	41.092	79.171	59.833	99.262	99.262	59.833
Free Cash Flow	-6.251.517	-5.234.210	-1.921.184	728.882	1.575.699	2.064.274	2.451.682	1.982.536	1.986.638	2.027.093
Discounted Cash Flow	-6.251.517	-4.758.373	-1.587.755	547.620	1.076.224	1.281.752	1.383.911	1.017.354	696.305	645.894

13- Conclusions

To conclude, an investment in the hospitality sector, in the available location, appears to be feasible.

First, in the overall, the issues that are affecting the whole country are evolving positively. Thus, the trend is for them not to present a problem to the investment. More specifically, the political-military conflict is under peace negotiations; in terms of legal questions, the country is developing strategies to be more open to investments. What is more, besides the economy being under a bad situation in the current year, the forecasts are for it to turn more positive. In the same line of thoughts, in spite of 2016 being a year that registered a low demand in the tourism sector, the previsions for the following years are more positive.

Secondly, the location of the terrain is viable. Although situated outside of the most developed area of the city, it might be able to attract tourists. On the one side, it has enough commerce/services and infrastructures. On the other, it is relatively near important economic and industrial activities and other big infrastructures, with prospects to generate a big flow of people.

Thus, the hotel's market comprises this flow of people generated by the several areas. Also, it should be expected that a great share of clients will be foreign business travellers. This is explained by the fact that this is how District 1's market is characterized. This area is where the most expressive area of hotels is.

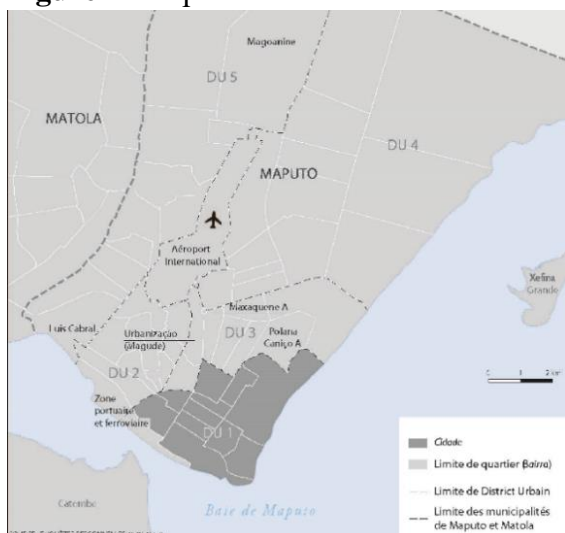
Considering that the industry of a four star hotel seems more advantageous than the one of the lower category, and that the facilities/ services and quality of a 4 star hotel will attract more corporate travellers than the lower category, Topack should build a 4 stars hotel.

In terms of management, the investor should subcontract it, since this option presents to be less expensive and more feasible than the other two thought by the group. Moreover, it is being widely adopted in the hospitality sector, and more specifically, in Africa.

Finally, the project is financially viable, since its NPV is positive.

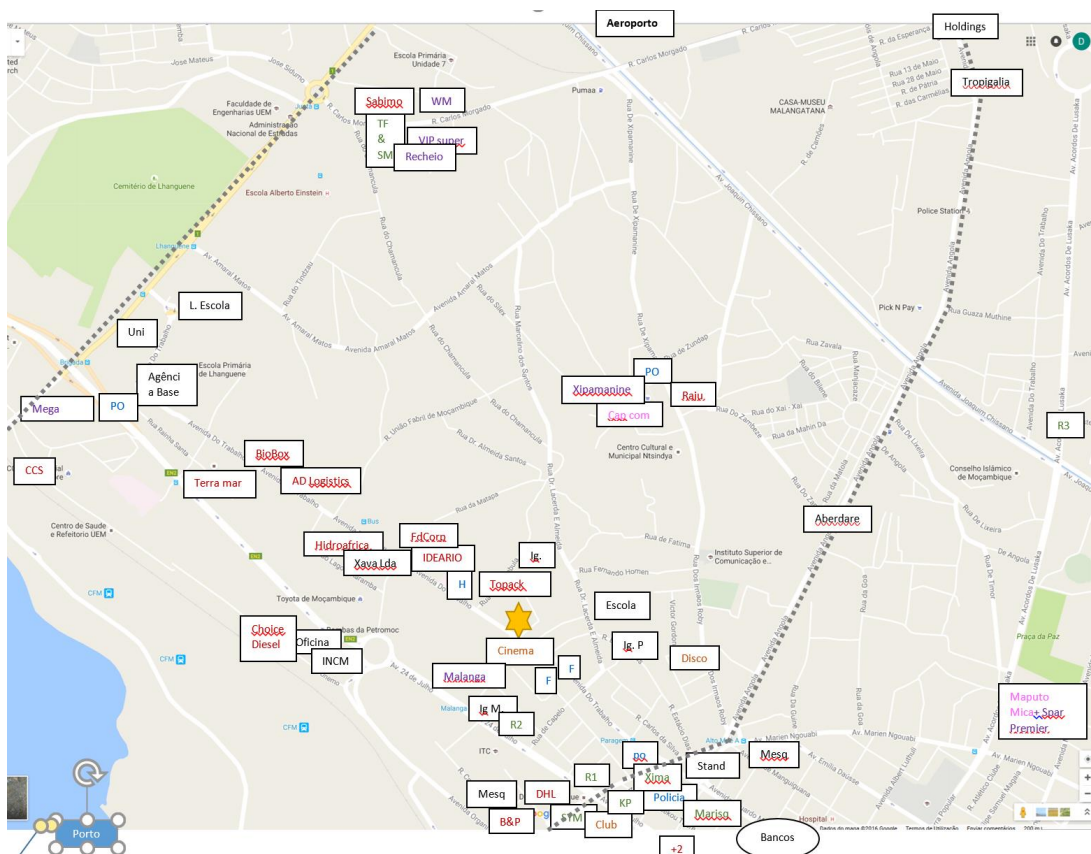
14- First Annex

Figure 1- Maputo's districts.



Source: <https://espacepolitique.revues.org/3164> (accessed September 30, 2016)

Exhibit 2 – Commerce/ services and other infrastructures present in District 2



Red: companies; **Purple and pink:** markets/ department stores/ supermarkets; **Blue:** Hospitals, pharmacies, post-office, police; **Green:** places to eat; **Orange:** Leisure places; **Black:** others. **Star:** Terrain location.

Source^{IX}: adapted from googlemaps.com (accessed October 16, 2016)

^{IX} I understand that this source has limitations by not presenting the whole offer. Yet, I compared its offer with the one of the city centre and it was smaller; that was taken into consideration.